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June 12, 2003

Mary L. Cottrell, Secretary.
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 03-47, Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, NSTAR Gas Company, Pension/PBOP Adjustment Mechanism Tariff Filing, Discovery Responses

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses of Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company and NSTAR Gas Company to the Information Requests set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,

Robert N. Werlin

Robert N. Werlin

Enclosures
cc: Service List

Responses to Information Requests

Information Request AG-1-8
Information Request AG-1-9
Information Request AG-1-23

June 12, 2003

Information Request AG-1-8

Please provide complete copies of the pension cost actuarial studies for each of the years 1990 to 2003 for each of the Companies. Please also provide copies of all updates, corrections, or amendments made to each of those studies.

Response

See the Company's response to Information Request DTE-2-7 for the 2003 Actuarial Report.

Attachment AG-1-8 is the actuarial reports related to pension cost for:

NSTAR	2000-2002
Boston Edison	1990; 1993; 1994-1999
COM/Energy	1992-1999

The Company is attempting to locate the reports for the other years to be responsive to this question. It should be noted that the Department's record-retention policy with regard to pension liability valuation reports is that they should be retained for six years. See 220 C.M.R. 75.05(28)(a).

Please note that the attachments are bulk documents and are therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy of each is also available for inspection at the Company's offices during normal business hours.

Information Request AG-1-9

Please provide copies of the post-retirement benefits other than pensions cost actuarial studies for each of the years 1990 to 2003 for each of the Companies. Please also provide copies of all updates, corrections, or amendments made to each of those studies.

Response

Attachment AG-1-9 is the actuarial reports related to PBOP cost for:

NSTAR	2000-2003
Boston Edison	1997-1999; 1993-1995
COM/Energy	1993-1999

Although the Boston Edison report is not provided for 1996, the cost information for that year is included in the 1998 report. It should be noted that the Department's record-retention policy with regard to pension liability valuation reports is that they should be retained for six years. See 220 C.M.R. 75.05(28)(a).

Actuarial reports for PBOPs were not prepared prior to 1993, the effective date of SFAS 106.

Please note that the attachments are bulk documents and are therefore being provided only to the Secretary, the Hearing Officer and the Attorney General. A copy of each is also available for inspection at the Company's offices during normal business hours.

Information Request AG-1-23

Please provide copies of all studies, analyses, memorandum, correspondence, and e-mails between the Company and its actuaries regarding the Companies' D.T.E. 02-78 request for a deferral of its pension and post-retirement benefits other than pensions costs.

Response

The Company's actuary, Watson Wyatt, had limited involvement in the Company's request in D.T.E. 02-78. Its participation was limited to the review of the Company's SFAS 87 and 106 projections (already provided in Attachment AG-1-29) and information on pension and PBOP contribution requirements (provided as Attachment AG-1-23). No other responsive documents exist.

D.T.E. 03-47
Attachment AG-1-23

Watson Wyatt
Worldwide

Memo

November 27, 2002

To: Mike Farrell

From: Ann Kampe

cc: Chris Johnson

Subject: **Pension Plan Funding Issues**

Mike,

This memo provides descriptions of the minimum required contribution, the maximum tax deductible contribution, the PBGC variable rate premium, and the PBGC 4010 filing for the NSTAR Pension Plan. In addition to explaining each calculation, we have shown actual amounts from the 2002 valuation as well as providing 2003 estimates.

I. Minimum Required Cash Contribution Calculation

The IRS defines the minimum required cash contribution for qualified defined benefit retirement plans. Generally, each year, the minimum required contribution is designed to provide a cash amount to the plan equal to: (1) plus (2) below (referred to as the preliminary minimum required contribution):

(1) Normal cost - the value of benefits earned by active participants during the year
(2) Amortization of prior years

- gains and/or losses on plan assets and liabilities (over 5 years)
- plan amendments (over 30 years)
- assumption changes (over 10 years)

In addition, increased contributions (additional funding charge) are required if the plan is considered underfunded on an accrued benefit basis, with liabilities measured using conservative interest rate assumptions (6.85% for the 2002 valuation), along with a mandated mortality assumption. The additional contribution is required if:

- the plan's ratio of liabilities to assets is less than .8
- the plan's ratio of liabilities to assets is less than .9 in any two of the prior three years.

The minimum required cash contribution for a year is offset by the accumulation of cash contributions in prior years which exceeded the minimum requirement. This amount is termed the plan's "credit balance".

The preliminary minimum required contribution may be limited by the plan's "full funding limit". Generally, the full funding limit is the difference between the plan's liabilities and the lesser of the plan's market and actuarial value of assets. If this amount is less than the preliminary minimum required contribution plus additional funding charge, the full funding limit becomes the minimum required contribution.

The NSTAR Pension Plan has a minimum required contribution of $0 for 2002, due to a significant credit balance. The details of the development of the minimum contribution for 2002 are shown below:

Development of Minimum Required Contribution for 2002

1.	Charges for Plan Year	
	a. Normal cost	$15,449,014
	b. Amortization charge	$47,679,878
	c. Interest to end of year on a. and b.	$5,365,956
	d. Additional funding charge	N/A
	e. Interest charge due to late quarterly contributions	0
	f. Total charges	$68,494,848
2.	Credits for Plan Year	
	a. Prior year credit balance	$203,859,925
	b. Amortization credit	0
	c. Interest to end of year on a. and b.	$17,328,094
	d. Full funding limitation credit	0
	e. Total credits	$221,188,019
3.	Minimum required contribution as of December 31, 2002 (1f – 2e, not less than zero)	$0

Note that the 2003 minimum required contribution is expected to remain at $0 due to the plan's large credit balance. Also, the plan is expected to remain exempt from the additional funded charge with a funded liability percentage of over 90%.

II. Maximum Deductible Contribution

There are three sets of calculations to consider when developing the maximum deductible contribution. The first two are very similar to the calculation of the preliminary minimum required contribution (with all amortizations determined over ten years). The calculation for the NSTAR Pension Plan that has historically produced the largest contribution is the "unfunded current liability" calculation. The IRS prescribes the mortality assumption and a range of interest rates that may be used for this calculation. We calculated the current liability using an interest rate at the bottom of the range which increases the unfunded current liability and therefore increases the maximum deductible contribution. The 2002 calculation is described below, along with estimated 2003 results.

	2002	Estimated 2003
Beginning-of-year assets (Actuarial)	$912,852,932	$769,000,000
Expected benefit payments	(55,447,978)	(56,000,000)
Expected expenses	(4,275,417)	(5,000,000)
Interest to end of year	74,872,550	63,000,000
Projected end-of-year amount	$928,002,087	$771,000,000
Beginning-of-year liability	$960,449,690	$985,000,000
Normal cost	26,123,884	28,000,000
Expected benefit payments	(53,636,208)	(56,000,000)
Expected expenses	(4,275,417)	(5,000,000)
Interest to end of year	49,111,675	49,000,000
Projected end-of-year liability	$977,773,624	$1,001,000,000
Unfunded current liability	$49,771,537	$230,000,000

For 2003, the actuarial value of assets which is subject to a smoothing calculation, is expected to be affected by the restrictions that the actuarial value be no greater than 120% of the market value, or about $769 million.

Per our 10/15 email, we estimated the maximum deductible contribution for 2003 to be approximately $257 million. Current liability for this purpose can be calculated using a rate as low as 90% of the 48 month weighted average of 30 year Treasury yields, or approximately 4.97% on 01/01/2003. This estimate assumed a market value of assets of $620 million, with an actuarial value of $744 million. If we update the estimated 12/31/02 market value of assets to $641 million and the actuarial value of assets to $769 million, the maximum deductible contribution reduces from $257 to $230 million.

III. PBGC Variable Rate Premium

The variable rate premium is the portion of the employer premium based upon the plan's unfunded vested benefits. A plan is exempt from the variable rate premium if a contribution equal to or exceeding the full funding limit is made for the plan year preceding the premium payment year. NSTAR is not required to pay the variable rate premium because of this exemption (see page 16 item e. of the 1/1/2002 funding report) in 2003. The 2004 premium payment year is possible due to asset losses during 2002, directly increasing the plan's full funding limit.

An estimate of the plan's full funding limit for 2003 is shown below:

(1) End of 2003 actuarial accrued liability = $753,000,000
(2) End of 2003 market value of assets = $639,000,000
    (based on 1/1/03 MVA = 641,000,000)
(3) Full funding limit for 2003 = $114,000,000
    (1) – (2), not less than zero

NSTAR may need to contribute at least $114 million for the 2003 plan year (prior to September 15, 2004) to avoid a variable rate premium in 2004.

IV. PBGC 4010 Filing

Section 4010 of ERISA requires employers with large underfunded pension plans based on vested benefits to annually submit certain benefits and financial information to the PBGC. Compliance is required if the plan's underfunding exceeds $50 million. The underfunding is determined using the PBGC's mandated assumptions including an estimated interest rate of 5.00% as of December 31, 2002. The underfunding for the NSTAR Pension Plan is estimated to be $166 million as of December 31, 2002. The funded status is determined using the actuarial value of assets, which, as noted above, is estimated to be $769 million.

As part of this filing, NSTAR would have to provide three different types of information to the PBGC by April 15, 2003. The required information includes:

- Identifying Information - This applies to the Company and all pension plans;
- Actuarial Information - These are supplemental calculations related to accrued benefit liabilities as well as excerpts from the valuation report;
- Financial Information - This will generally be the audited financial reports of the Company.

Please feel free to call if you have any questions.

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,'arrell, Michael

From: Johnson, Christopher (Boston) [Christopher.Johnson@WatsonWyatt.com]
Sent: Tuesday, October 15, 2002 1:08 PM
To: 'Farrell, Michael'
Subject: RE: Tax Deduction for 2003

Mike,

Re : NSTAR Pension Plan Maximum Contribution for 2003

Our best guess is that the maximum deductible contribution will be $257 million based on an unfunded current liability on 01/01/2003 projected to 12/31/2003. Current liability for this purpose can be calculated using a rate as low as 90% of the 48 month weighted average of 30 year Treasury yields, or approximately 4.97% on 01/01/2003, resulting in a current liability of $1,005 million. Assuming that the market value of plan assets is $620 million on 12/31/2003, the expected actuarial value of plan assets amounts to $744 million. The unfunded current liability of $261 million at 01/01/2003 is approximately $ 257 million on a projected basis at 12/31/2003 because the plan assets are projected at 8.5% interest, the valuation rate, and the liabilities are projected at 4.97% interest.

The current liability at year end is not likely to vary much from the estimated value of $1,005 million. The actuarial value of assets is likely to vary considerably because the value is set at at a maximum of 120% of market value, so that an increase in the assets of $25 million would increase the actuarial value by $ 30 million and lower the 2003 maximum contribution(based on projected year end assets) by approximately $33 million($30 million X 1.085).

This determination has been made without regard to the 25% of compensation limit of Code Section 404(a)(7) and any limitations on deductions to the defined contribution plan or to the impact of prior year carryovers, if any.

Chris

-----Original Message-----
From: Farrell, Michael [mailto:Michael_Farrell@nstaronline.com]
Sent: Friday, October 11, 2002 5:18 PM
To: Christopher Johnson (E-mail)
Subject: Tax Deduction for 2003

Chris,

I know this is an impossible request. But, could you give me an idea as to what the maximum tax deductible contribution will be next year? Any quick range that you could give me on Tuesday would be great.

Thanks,
Mike